

ISSUE DATE: March 26, 1998

DOCKET NO. ET-9/RP-97-954

ORDER ACCEPTING FILING, ESTABLISHING REQUIREMENTS FOR NEXT FILING,
AND URGING CONSIDERATION OF POTENTIAL PROCESS IMPROVEMENTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Commissioner
Commissioner
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Commissioner

In the Matter of the 1998-2012 Integrated
Resource Plan of Southern Minnesota
Municipal Power Agency

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PROCEDURAL HISTORY

On July 2, 1997 the Southern Minnesota Municipal Power Agency (SMMPA) filed an integrated resource plan under Minn. Stat. § 216B.2422 and Minn. Rules Chapter 7843.

On August 1, 1997 the Department of Public Service (the Department) filed comments stating it believed the filing complied with Commission rules as to form and content and should be considered complete.

On November 3, 1997 the Department filed substantive comments. Those comments recommended that the Commission accept the filing, establish certain requirements for SMMPA's next resource plan filing, and encourage the agency to consider making certain changes in its planning process.

On January 20, 1998 SMMPA filed reply comments, essentially acquiescing in the Department's recommendations.

On March 12, 1998 the matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. Factual Background

A. The Resource Planning Process

The resource planning statute and rules are detailed, but basically require utilities to file biennial reports on (1) the projected energy needs of their service areas over the next 15 years; (2) their plans for meeting projected need; (3) the analytical process they used to develop their plans for meeting projected need; and (4) their reasons for adopting the specific resource mix proposed. These requirements are designed to strengthen utilities' long term planning processes by providing

input from the public, other regulatory agencies, and the Commission. They are also designed to ensure that utilities making resource decisions give adequate consideration to factors whose public policy importance has grown in recent years, such as the environmental and socioeconomic impact of different resource mixes.

The original rules did not apply to municipal utilities, cooperatives, or wholesalers. In 1993, however, the Legislature amended the Public Utilities Act to require any entity serving 10,000 customers and capable of generating 100,000 kilowatts of electricity to file a plan.¹ Minn. Stat. § 216B.2422, subd. 1. This includes SMMPA, with approximately 88,000 ultimate customers and 600 megawatts of generating capacity.

For this group of utilities, however, Commission Orders on resource plans are advisory only, and their findings and conclusions constitute prima facie evidence which may be rebutted by substantial evidence in other proceedings. Minn. Stat. § 216B.2422, subd. 2.

B. SMMPA

SMMPA is a municipal joint action agency. It provides wholesale electricity to 18 member municipal utilities serving some 88,000 retail customers. With the exception of Grand Marais, all member utilities are located in central or southern Minnesota. Agency headquarters are in Rochester.

Thirteen of the 18 members have all-requirements contracts with SMMPA through 2030. The other five members have all-requirements contracts expiring in 1999; after that the amount of power each of the five is obligated to take will be determined by its Contract Rate of Delivery (CROD). Each member's CROD is its peak demand in 1999, which may be adjusted up or down by up to 10% at the option of SMMPA.

SMMPA meets current load through a combination of its own generation and leases on member-owned generating facilities. Its sole generating facility is the Sherco 3 plant near Becker, Minnesota, which it owns jointly with Northern States Power Company. SMMPA is almost totally dependent on other utilities' transmission facilities, to which it has access under tariffed or contractual arrangements.

The agency has taken a leadership role in promoting conservation among its membership, providing training in energy-saving technologies, practices, and programs to members and their employees.

C. SMMPA's Resource Plan

SMMPA explained that in developing its resource plan it used the Commission's criteria for evaluating resource plans, set forth in Minn. Rules, 7843.0500, subp. 3, as guidelines. The agency projected future need by using econometric models to forecast energy requirements, demand requirements, and load factors for each member system. The load factors were used to determine non-coincident demand for each member system and peak demand for the system as a whole. This process yielded average annual growth estimates of 2.0% for energy requirements

¹ The statute exempts federal power agencies.

and 1.6% for summer peak demand.

Comparing future need and available resources, SMMPA projected a small resource deficit beginning in 2004 and growing throughout the 15-year planning period. The agency plans to meet the deficit through conservation, direct load control, and power purchases. “Direct load control” includes adjusting the Contract Rates of Delivery of the five members subject to those rates downward and curtailing member loads subject to curtailment.

II. Positions of the Parties

A. The Department’s Comments

The Department was the only party to comment on the plan. The Department believed SMMPA had made great strides in integrated resource planning, especially forecasting and rate design, since its last resource plan filing.

1. Planning Process Improvements

The Department stated it would like to continue working with SMMPA on resource planning issues and would be especially interested in exploring with SMMPA possible process improvement in the following areas:

- (a) **Forecasting** — working with member utilities to separate data on commercial and industrial customers and to develop two or more subclasses of non-residential customers; being more cautious in adding the results of linear and logged forecasts; minimizing the use of spot load adjustments.
- (b) **Demand Side Management** — modeling different levels of achievable demand side management to determine which level has the lowest present value of social costs;
- (c) **Cogeneration** — exploring the potential for using cogeneration to meet future demand;
- (d) **Timing of Next Filing** — giving serious consideration to requesting rule variances to permit deferring the next resource plan filing until CROD levels have been determined and to limit the supply-side analysis of that plan to peaking resources.

2. Contents of Next Resource Plan

The Department also asked the Commission to require SMMPA to include the following items in its next resource plan:

- (a) an action plan developed with the use of environmental costs;
- (b) the screening criteria used for selecting the forecasting models ultimately chosen;
- (c) a short discussion of each forecasting model used;
- (d) extreme upper and lower forecast bands based on varying weather and economic conditions;

(e) new demand side management goals developed with the use of environmental costs;

(f) a discussion of the costs of complying with the nitrogen oxide provisions of the 1990 federal Clean Air Act Amendments;

(g) discussions of any refinements to SMMPA's current cost-of-service methodology, any further progress in implementing cost-based rates, and the potential for developing a "green pricing" program for member utilities;

(h) a detailed description of how SMMPA's recently negotiated alliance with PacifiCorp will affect SMMPA and its member utilities.

B. SMMPA's Comments

SMMPA stated that it welcomed the opportunity to continue working with the Department on resource planning issues, including the opportunity to explore the possible process improvements suggested by the Department. SMMPA also agreed to provide in its next resource plan filing the items recommended by the Department.

III. Commission Action

A. Factors to Be Considered

The rules require the Commission to consider at least the following factors in evaluating resource plans:

Resource options and resource plans must be evaluated on their ability to:

A. maintain or improve the adequacy and reliability of utility service;

B. keep the customers' bills and the utility's rates as low as practicable, given regulatory and other constraints;

C. minimize adverse socioeconomic effects and adverse effects upon the environment;

D. enhance the utility's ability to respond to changes in the financial, social, and technological factors affecting its operations; and

E. limit the risk of adverse effects on the utility and its customers from financial, social, and technological factors that the utility cannot control.

Minn. Rules, part 7843.0500, subp. 3.
Each factor will be considered in turn.

**1. Maintain or Improve the Adequacy and Reliability of
Utility Service**

SMMPA has acted diligently to protect and maintain its ability to provide reliable service to its member utilities. It has used tested methods to prepare careful forecasts of future need and conservative assessments of available resources. It has acted reasonably in concluding that it has adequate supply until approximately 2004 and that it should be able to meet that shortfall, at least initially, through conservation, direct load control, and power purchases.

The Commission finds that the course of action outlined in the resource plan can reasonably be expected to maintain or improve the adequacy and reliability of SMMPA's service.

**2. Keep the Customers' Bills and the Utility's Rates
as Low as Practicable, Given Regulatory and
Other Constraints**

Historically, SMMPA has been very successful not only at keeping costs and rates low, but at reducing costs and rates. In 1992 the agency's average revenue per delivered kilowatt-hour was 5.57 cents; in 1997 that figure was 4.84 cents. The agency expects costs and rates to drop further during the term covered in the resource plan. The Department agrees, and the Commission finds this conclusion reasonable, chiefly because the plan anticipates no major capacity additions.

The Commission finds that the resource plan adequately addresses and is reasonably designed to keep costs and rates as low as practicable.

**3. Minimize Adverse Socioeconomic Effects and Adverse
Effects Upon the Environment**

The plan's "no-build" approach to meeting future need and its commitment to greater reliance on conservation are essentially pro-environment, as is SMMPA's willingness to further explore "green pricing."² Since the plan is a low-impact plan, it is extremely unlikely to escalate or intensify any adverse socioeconomic or environmental effects resulting from current operations.

The Commission finds the course of action outlined in the resource plan can reasonably be expected to minimize adverse socioeconomic and environmental effects.

**4. Enhance the Utility's Ability to Respond to
Changes in the Financial, Social, and
Technological Factors Affecting Its Operations**

²"Green pricing," as currently understood, means giving customers the option of paying higher rates for power generated with renewable resources and/or non-polluting technologies. Utilities using green pricing purchase (or generate) the amount of "green power" needed to meet the needs of the customers who have selected that option.

SMMPA's resource plan demonstrates the agency's commitment and practical ability to respond to changing financial, social, and technological realities. Its "no-build" strategy, for example, will position the agency to exploit any low-cost supply opportunities resulting from any restructuring of the electric industry. Its recently negotiated alliance with PacifiCorp, a diversified energy and telecommunications utility based in Portland, Oregon, is another example of the agency's determination to meet the future from a position of strength.

The Commission finds that the course of action outlined in this resource plan will enhance the utility's ability to respond to changes in the financial, social, and technological factors affecting its operations.

5. Limit the Risk of Adverse Effects on the Utility and Its Customers from Financial, Social, and Technological Factors that the Utility Cannot Control

This factor is closely related to the preceding one, but speaks only to the risk management part of responding to change. Here, too, the resource plan passes muster. Its no-build strategy is a conscious and prudent response to the uncertain cost recovery scenarios electric industry restructuring could bring. Its reliance on cost-effective conservation, too, is a nearly no-fail approach to reducing risk.

The Commission finds that the course of action outlined in the resource plan limits the risk of adverse effects on the utility and its customers from financial, social, and technological factors beyond the utility's control.

B. Approval of Plan

The Commission concludes, for the reasons set forth above, that SMMPA's plan meets the requirements of the rule and the statute. It will be approved.

C. Examining Process Improvements

Any process can be improved, and the Department identified several ways in which it might be possible to improve SMMPA's planning process. SMMPA stated it welcomed the opportunity to discuss its planning process with the Department. The Commission will encourage both parties to hold these discussions and to work together for constructive change.

D. Filing Requirements for SMMPA's Next Resource Plan

The Department identified eight items it believed should be included in the next SMMPA resource plan, and SMMPA agreed to include them. The Commission will so order.

ORDER

1. Southern Minnesota Municipal Power Agency's (SMMPA's) 1998-2012 integrated resource plan is hereby accepted.

2. SMMPA and the Department of Public Service shall work together to explore possible planning process improvements in the following areas:
 - (a) Forecasting — working with member utilities to separate data on commercial and industrial customers and to develop two or more subclasses of non-residential customers; being more cautious in adding the results of linear and logged forecasts; minimizing the use of spot load adjustments.
 - (b) Demand Side Management — modeling different levels of achievable demand side management to determine which level has the lowest present value of social costs;
 - (c) Cogeneration — exploring the potential for using cogeneration to meet future demand;
 - (d) Timing of Next Filing — giving serious consideration to requesting rule variances to permit deferring the next resource plan filing until CROD levels have been determined and to limit the supply-side analysis of that plan to peaking resources.
3. SMMPA's next resource plan filing shall include the following items:
 - (a) an action plan developed with the use of environmental costs;
 - (b) the screening criteria used for selecting the forecasting models ultimately chosen;
 - (c) a short discussion of each forecasting model used;
 - (d) extreme upper and lower forecast bands based on varying weather and economic conditions;
 - (e) new demand side management goals developed with the use of environmental costs;
 - (f) a discussion of the costs of complying with the nitrogen oxide provisions of the 1990 federal Clean Air Act Amendments;
 - (g) discussions of any refinements to SMMPA's current cost-of-service methodology, any further progress in implementing cost-based rates, and the potential for developing a "green pricing" program for member utilities;
 - (h) a detailed description of how SMMPA's recently negotiated alliance with PacifiCorp will affect SMMPA and its member utilities.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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